

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 L-03 PA-01 /093 W  
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R 281301Z JUN 78  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC 9182  
INFO USDOC WASHDC  
AMCONSUL KADUNA

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E.O. 11652: N/A  
TAGS: EINV, EIND, BEXP, NI  
SUBJECT: NEW REGULATIONS MEAN LOWER GROWTH FOR ECONOMY

1. AMERICAN BUSINESSMAN STEVEN WHITE OF CATERPILLAR OVERSEAS, S.A. CALLED ON EMBASSY JUNE 27 TO REPORT THAT NIGERIANS HAVE IMPLEMENTED MEASURE WHICH REQUIRES ONLY A FIXED 25 PERCENT MARGIN ON THE IMPORTED COST OF HEAVY EQUIPMENT AND CAPITAL GOODS. THIS MEASURE WAS FIRST ANNOUNCED BY MIN. FINANCE OLULEYE IN THE APRIL 1 BUDGET SPEECH. SINCE THAT TIME, THE LOCAL BUSINESS COMMUNITY HAS BEEN NEGOTIATING WITH NIGERIA'S PRICE AND INCOMES BOARD ABOUT THE SPECIFIC WAY IN WHICH THE MEASURE WOULD BE IMPLEMENTED. DECISION OF THE BOARD WHICH WAS ANNOUNCED ON JUNE 23 PROMISES TO CAUSE A RETRENCHMENT THROUGHOUT THE BUSINESS COMMUNITY.

2. SPECIFICALLY, THE BOARD HAS RULED THAT A COMPANY CAN ONLY USE THE CIF COST AND THE LOCAL ASSEMBLY COST FOR CALCULATING ITS 25 PERCENT MARGIN. OTHER COSTS SUCH AS PORT CHARGES, DUTY WHICH CAN RANGE UP  
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TO 75 PERCENT OF THE VALUE, AND INLAND DISTRIBUTION COSTS WILL FALL INTO THE FINAL RETAIL COST WITHOUT BOOSTING ALLOWABLE MARGIN. THEREFORE, THE FINAL MARGIN TO LOCAL DISTRIBUTORS MIGHT AMOUNT IN THE CASE OF GENERATORS TO 13 PERCENT OF VALUE. HOWEVER, THE PROFIT PICTURE IS FURTHER DIMMED SINCE THE COSTS OF WARRANTY, FINANCE, DELIVERY AND TRAINING WERE SPECIFICALLY DIS-

ALLOWED BY THE BOARD AND IF CONTINUED, WOULD HAVE TO BE SUBTRACTED FROM THE FINAL 13 PERCENT PROFIT MARGIN. WHITE AND THE GENERAL MANAGER OF A LOCAL TRACTOR AND EQUIPMENT COMPANY INFORMED US THAT THIS MEASURE WILL HURT ALL SECTIONS OF BUSINESS NOT JUST HEAVY EQUIPMENT. ANY COMMODITY WITH A HIGH RATE OF DUTY WILL TEND TO BE HURT SUCH AS AIR-CONDITIONERS, AND TRANSFORMERS.

3. COMMENT: LIKE MANY OF THE MEASURES TAKEN BY NIGERIAN ECONOMIC POLICY OFFICIALS, THIS WILL TEND TO HAVE AN OPPOSITE EFFECT OF THAT INTENDED. THE PURPOSE OF THE MEASURE WAS OSTENSIBLY TO STIFLE INFLATION. THE ACTUAL EFFECT WILL BE DIFFERENT. LOCAL BUSINESSMEN IN THE FIRST INSTANCE WILL LOWER THEIR INVENTORIES. IN THE DIFFICULT NIGERIAN BUSINESS CLIMATE, A HIGH LOCAL INVENTORY ENSURES CONTINUOUS SUPPLY BUT WITH REDUCED PROFIT MARGINS, THIS WILL NOT BE POSSIBLE. SECONDLY, SINCE THE BOARD HAS RESTRICTED LOCAL DISTRIBUTION COSTS TO 2 PERCENT OF CIF VALUE, HEAVY EQUIPMENT LIKE BULLDOZERS WILL TEND TO NOT BE DISTRIBUTED TO DISTANT POINTS LIKE KADUNA AND THE OTHER NORTHERN CITIES. THIRDLY, COMPANIES WILL PROBABLY COMPENSATE FOR THIS MEASURE BY RAISING THE PRICE OF SPARE PARTS. IN SUM, WHILE THE MEASURE TEMPORARILY HOLDS DOWN PRICE INCREASES ON SOME UNITS, IT WILL HAVE THE LONGER RUN EFFECT OF DISCOURAGING NEW FOREIGN INVESTMENT AND RE-LIMITED OFFICIAL USE

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DUCING THE SUPPLY OF NEEDED EQUIPMENT.

4. EMBASSY WILL PRESS FOR MORE REASONABLE INTERPRETATION OF THIS MEASURE IN ITS MEETINGS WITH MIN. FINANCE OFFICIALS.

WYMAN

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NNN

## Message Attributes

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